

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Berrien Springs</u>	County Berrien
Audit Date June 30, 2005	Opinion Date August 17, 2005	Date Accountant Report Submitted To State: November 4, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

Village of Berrien Springs, Michigan

Financial Report
with Supplemental Information
June 30, 2005

Village of Berrien Springs, Michigan

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Independent Auditor's Report

To the Village Council
Village of Berrien Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Berrien Springs, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Berrien Springs, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

August 17, 2005

Village of Berrien Springs, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Berrien Springs, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, the Village's second largest revenue source, was decreased again this year. The Village reacted by cutting back on scheduled overtime, approving more modest pay increases, and keeping expenses at a minimum where possible.
- The Village authorized the purchase of a new phone system in the Village Hall through J&W Communications in the amount of \$4,589. Other office updates included replacing the fax machine with a Savin 3810 fax machine in the amount of \$660 and the purchase of a file server in the amount of \$3,721.
- The Village changed banking institutions to receive more interest and pay less fees. A \$300,000 CD was purchased from the previous bank (Fifth Third Bank) and the rest of the funds were transferred to United Federal Credit Union for the Village's primary banking.
- The Village continued its long-term investment in its wastewater treatment system.
- Subsequent to the fiscal year end, USDA Rural Development approved a loan amount of \$5,738,000 and a grant amount of \$3,000,000 for the new Waste Water Treatment Plant.
- A Small Urban Grant was awarded to the Village of Berrien Springs in the amount of \$450,000. Work began in June 2004 on Ferry Street. The final details have almost been completed for the Village to sign off on the project.
- A Michigan Economic Development Corporation Community Development Block Grant in the amount of \$200,000 was awarded to the Village to improve the downtown infrastructure, help create jobs, and assist with community planning projects.
- MDOT approved a Transportation Enhancement Grant award to the Village in the amount of \$343,680 for the downtown development project. The project is in the plans for next fiscal year. Total project expenditures are estimated at \$826,000.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Assets									
Current assets	\$ 2,782,554	\$ 2,415,719	\$ 2,058,789	\$ 692,118	\$ 780,964	\$ 844,465	\$ 3,474,672	\$ 3,196,683	\$ 2,903,254
Noncurrent assets	2,105,153	1,836,536	1,442,017	3,689,348	3,543,747	3,335,501	5,794,501	5,380,283	4,777,518
Total assets	4,887,707	4,252,255	3,500,806	4,381,466	4,324,711	4,179,966	9,269,173	8,576,966	7,680,772
Liabilities									
Current liabilities	52,648	51,895	24,196	377,097	528,674	577,617	429,745	580,569	601,813
Long-term liabilities	-	-	5,999	526,416	557,948	611,016	526,416	557,948	617,015
Total liabilities	52,648	51,895	30,195	903,513	1,086,622	1,188,633	956,161	1,138,517	1,218,828
Net Assets									
Invested in capital assets -									
Net of related debt	1,606,712	1,338,095	1,310,994	2,911,398	2,642,265	2,724,485	4,518,110	3,980,360	4,035,479
Restricted	845,421	757,603	29,990	239,394	267,056	56,988	1,084,815	1,024,659	86,978
Unrestricted	2,382,926	2,104,662	2,129,627	327,161	328,768	209,860	2,710,087	2,433,430	2,339,487
Total net assets	<u>\$ 4,835,059</u>	<u>\$ 4,200,360</u>	<u>\$ 3,470,611</u>	<u>\$ 3,477,953</u>	<u>\$ 3,238,089</u>	<u>\$ 2,991,333</u>	<u>\$ 8,313,012</u>	<u>\$ 7,438,449</u>	<u>\$ 6,461,944</u>

The Village's combined net assets increased 12 percent from a year ago - increasing from \$7,438,449 to \$8,313,012. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 15 percent from \$4,200,360 to \$4,835,059, while business-type activities increased 7 percent from \$3,238,089 to \$3,477,953.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - increased by \$278,264 for the governmental activities. This represents an increase of approximately 13 percent. The current level of unrestricted net assets for our governmental activities stands at \$2,382,926, or about 279 percent of expenditures. This is within the targeted range set by the Village during its last budget process.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior two fiscal years:

	Governmental Activities			Business-type Activities			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Revenue									
Program revenue:									
Charges for services	\$ 188,280	\$ 206,289	\$ 182,021	\$ 995,834	\$ 962,873	\$ 789,597	\$ 1,184,114	\$ 1,169,162	\$ 971,618
Operating grants and contributions	131,585	222,217	123,599	-	-	-	131,585	222,217	123,599
Capital grants and contributions	318,509	-	-	-	-	520,000	318,509	-	520,000
General revenue:									
Property taxes	540,845	583,327	580,697	-	-	-	540,845	583,327	580,697
State-shared revenue	182,397	191,842	197,181	-	-	-	182,397	191,842	197,181
Unrestricted investment earnings	53,068	18,421	31,073	13,932	13,723	16,467	67,000	32,144	47,540
Miscellaneous	72,908	4,580	82,402	-	-	(75,941)	72,908	4,580	6,461
Total revenue	1,487,592	1,226,676	1,196,973	1,009,766	976,596	1,250,123	2,497,358	2,203,272	2,447,096
Program Expenses									
General government	164,967	178,452	229,066	-	-	-	164,967	178,452	229,066
Public safety	105,446	177,556	273,210	-	-	-	105,446	177,556	273,210
Public works	413,684	298,389	362,081	-	-	-	413,684	298,389	362,081
Recreation and culture	168,796	176,091	142,083	-	-	-	168,796	176,091	142,083
Water and sewer	-	-	-	769,902	729,840	702,398	769,902	729,840	702,398
Total program expenses	852,893	830,488	1,006,440	769,902	729,840	702,398	1,622,795	1,560,328	1,708,838
Change in Net Assets	\$ 634,699	\$ 396,188	\$ 190,533	\$ 239,864	\$ 246,756	\$ 547,725	\$ 874,563	\$ 642,944	\$ 738,258

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

During the past fiscal year, governmental activities revenues increased from \$1,226,676 to \$1,487,592 or approximately 21 percent, while governmental program expenses increased approximately 3 percent. This relates to the Ferry Street Road Improvements Project, which resulted in approximately \$320,000 of revenue for the governmental activities. The related expenditures were capitalized as capital assets and therefore, there was no related increase in government-wide expenditures related to the road portion of the grant project. Business-type activities revenues increased approximately 3 percent, while expenses also increased by approximately 6 percent. The most significant revenue increases relate to increases in utility revenues. This increase in charges for services-type revenue relates to efforts by Village management to increase service rates to levels more comparative to other municipalities in the region, while continuing the effort to decrease related costs. The increase in expenditures relates to significant increases in legal expenditures during the year. Significant legal fees were incurred in relation to the two short-term notes that were issued to the Village in 2004, of which one was repaid and the other reissued during 2005.

Governmental Activities

Property taxes increased slightly due to valuation increases.

Business-type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water and sewer to residents through Village-owned and operated wells and sewage treatment plant.

Water Fund

- A water and sewer rate study was completed in January 2003. Using a proposed cost allocation between the customer, commodity, and demand charges, an annual increase of approximately 6.0 percent per year for five years was instituted.
- This year, a second water meter for watering lawns and filling swimming pools was begun for those interested.
- A new well (#7) was installed.

Sewer Fund

The water and sewer rate study completed in January 2003 recommended an average of 8 percent to 10 percent annual increase in sewer rates over a five-year time span, which was approved. Annual projected surpluses would build back up the Sewer Fund's cash reserves, which have been depleted.

The wastewater treatment plant is antiquated and equipment replacement and/or repair have increased. The Village is awaiting grant approval to build a new wastewater treatment plant in the near future.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The Village's Funds

Our analysis of the Village's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2005 include the General Fund, the Major and Local Streets Funds, and the Waste Water and Water Operating Funds.

The General Fund pays for most of the Village's governmental services. The most significant are police and fire, which incurred expenses of approximately \$130,000 during fiscal 2005. As of January 2005, the municipalities are no longer appropriating monies to the police department. Instead, beginning in fiscal 2006, a millage will be levied to support the police department. These two services are operated as jointly governed organizations in conjunction with Oronoko Charter Township, as described in detail in Note 1 of the accompanying financial statements.

Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. No significant amendments were made to the budgets of the General, Major Streets, and Local Streets Funds. Full budget to actual statements for these funds are included in as pages 33 through 35 of this report. The significant budget overrun is discussed in the note to required supplemental information (see page 36 of this report).

Capital Asset and Debt Administration

During the year, the Village repaid the short-term bank note for \$107,000 that was issued in fiscal 2004 to fund the Rose Hill Lift Station project. In addition, a second short-term bank note was rolled over and increased from \$210,000 to \$220,000 to cover the costs of the reissue. This note was originally issued during fiscal 2004 to finance the Ferry Street sewer improvements project. This project, including the related street and water system improvements, was substantially completed and capitalized during fiscal 2005. The related 2005 capital additions are as follows: sewer system - \$132,384, water system - \$165,267, and street improvements - \$409,393.

Economic Factors and Next Year's Budgets and Rates

The Village's fiscal 2006 budget anticipates additional cuts in state-shared revenue. The Village has received a CDBG grant of approximately \$340,000 for fiscal 2006. The Village will match this grant at an additional expense of approximately \$280,000. In addition, the Village anticipates the receipt of \$3,000,000 of grant money from the Rural Development Grant for the Waste Water Treatment Plant project over fiscal 2006 and 2007.

The Village increased water and sewer rates during fiscal 2005 and continues to watch water and sewer revenue and expense trends for possible necessary increases in the future.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Village of Berrien Springs, Michigan

Statement of Net Assets June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 1,309,256	\$ 458,579	\$ 1,767,835
Investments (Note 3)	1,150,663	-	1,150,663
Customer accounts receivable - Net	17,588	245,077	262,665
Due from other governmental units	44,491	-	44,491
Internal balances	260,556	(260,556)	-
Prepaid costs and other assets	-	9,624	9,624
Restricted assets - Debt service	-	239,394	239,394
Capital assets - Net (Note 4):			
Assets subject to depreciation	1,318,071	2,597,395	3,915,466
Assets not subject to depreciation	288,641	1,091,953	1,380,594
Investment in joint venture (Note 1)	498,441	-	498,441
Total assets	4,887,707	4,381,466	9,269,173
Liabilities			
Accounts payable	16,668	7,143	23,811
Accrued and other liabilities	35,980	118,420	154,400
Noncurrent liabilities (Note 6):			
Due within one year	-	251,534	251,534
Due in more than one year	-	526,416	526,416
Total liabilities	52,648	903,513	956,161
Net Assets			
Invested in capital assets - Net of related debt	1,606,712	2,911,398	4,518,110
Restricted for streets and highways	845,421	-	845,421
Restricted for debt service	-	239,394	239,394
Unrestricted	2,382,926	327,161	2,710,087
Total net assets	<u><u>\$ 4,835,059</u></u>	<u><u>\$ 3,477,953</u></u>	<u><u>\$ 8,313,012</u></u>

Village of Berrien Springs, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Governmental activities:				
General government	\$ 164,967	\$ 7,015	\$ -	\$ -
Public safety	105,446	-	-	-
Public works	413,684	67,403	131,585	318,509
Recreation and culture	168,796	113,862	-	-
Total governmental activities	852,893	188,280	131,585	318,509
Business-type activities - Water and sewer	769,902	995,834	-	-
Total primary government	\$ 1,622,795	\$ 1,184,114	\$ 131,585	\$ 318,509
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year (as restated) (Note 9)				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (157,952)	\$ -	\$ (157,952)
(105,446)	-	(105,446)
103,813	-	103,813
<u>(54,934)</u>	<u>-</u>	<u>(54,934)</u>
(214,519)	-	(214,519)
<u>-</u>	<u>225,932</u>	<u>225,932</u>
(214,519)	225,932	11,413
540,845	-	540,845
182,397	-	182,397
53,068	13,932	67,000
<u>72,908</u>	<u>-</u>	<u>72,908</u>
<u>849,218</u>	<u>13,932</u>	<u>863,150</u>
634,699	239,864	874,563
<u>4,200,360</u>	<u>3,238,089</u>	<u>7,438,449</u>
<u>\$ 4,835,059</u>	<u>\$ 3,477,953</u>	<u>\$ 8,313,012</u>

Village of Berrien Springs, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General	Major Streets	Local Streets	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 1,597,489	\$ 407,306	\$ 455,124	\$ 2,459,919
Receivables - Net	17,588	-	-	17,588
Due from other governmental units	24,113	13,933	6,445	44,491
Due from other funds (Note 5)	260,556	-	-	260,556
Total assets	<u>\$ 1,899,746</u>	<u>\$ 421,239</u>	<u>\$ 461,569</u>	<u>\$ 2,782,554</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 9,322	\$ 2,621	\$ 4,725	\$ 16,668
Accrued and other liabilities	-	-	30,041	30,041
Total liabilities	9,322	2,621	34,766	46,709
Fund Balances				
Unreserved, reported in:				
General Fund	1,815,424	-	-	1,815,424
Special Revenue Funds	-	418,618	426,803	845,421
Designated for future police expenditures	75,000	-	-	75,000
Total fund balances	1,890,424	418,618	426,803	2,735,845
Total liabilities and fund balances	<u>\$ 1,899,746</u>	<u>\$ 421,239</u>	<u>\$ 461,569</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,606,712
Investment in joint venture				498,441
Long-term liabilities are not due and payable in the current period and are not reported in funds				(5,939)
Net assets of governmental activities				<u>\$ 4,835,059</u>

Village of Berrien Springs, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General	Major Streets	Local Streets	Total Governmental Funds
Revenue				
Property taxes	\$ 407,492	\$ -	\$ 133,353	\$ 540,845
State-shared revenues and grants	182,397	91,744	358,350	632,491
Licenses and permits	7,015	-	-	7,015
Charges for services	260,891	-	-	260,891
Fines and forfeitures	1,107	-	-	1,107
Interest and rentals	44,898	3,909	4,970	53,777
Other	77,466	30	45	77,541
Total revenue	981,266	95,683	496,718	1,573,667
Expenditures				
General government	226,100	-	-	226,100
Public safety	103,203	-	-	103,203
Public works	103,863	79,609	558,612	742,084
Recreation and culture	138,526	-	-	138,526
Total expenditures	571,692	79,609	558,612	1,209,913
Excess (Deficiency) of Revenue Over Expenditures	409,574	16,074	(61,894)	363,754
Other Financing Sources (Uses)				
Transfers in (Note 5)	-	52,200	78,300	130,500
Transfers out (Note 5)	(130,500)	-	-	(130,500)
Total other financing sources (uses)	(130,500)	52,200	78,300	-
Net Change in Fund Balances	279,074	68,274	16,406	363,754
Fund Balances - Beginning of year	1,611,350	350,344	410,397	2,372,091
Fund Balances - End of year	<u>\$ 1,890,424</u>	<u>\$ 418,618</u>	<u>\$ 426,803</u>	<u>\$ 2,735,845</u>

Village of Berrien Springs, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	363,754
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	401,919
Governmental funds loss on disposal of capital assets	(4,765)
Governmental funds depreciation	(128,537)
Decrease in accumulated employee vacation pay is recorded when earned in the statement of activities	<u>2,328</u>

Change in Net Assets of Governmental Activities	\$	<u>634,699</u>
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Village of Berrien Springs, Michigan

Proprietary Funds Statement of Net Assets June 30, 2005

	Waste Water	Water Operating	Total Enterprise Funds
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ -	\$ 458,579	\$ 458,579
Receivables - Net	127,577	117,500	245,077
Prepaid costs and other assets	-	9,624	9,624
Total current assets	127,577	585,703	713,280
Noncurrent assets:			
Restricted assets	181,720	57,674	239,394
Capital assets (Note 4)	2,216,329	1,473,019	3,689,348
Total noncurrent assets	2,398,049	1,530,693	3,928,742
Total assets	2,525,626	2,116,396	4,642,022
Liabilities			
Current liabilities:			
Accounts payable	3,773	3,370	7,143
Accrued and other liabilities	17,050	5,715	22,765
Customer deposits payable	-	95,655	95,655
Due to other funds (Note 5)	260,556	-	260,556
Current portion of long-term debt (Note 6)	225,767	25,767	251,534
Total current liabilities	507,146	130,507	637,653
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	130,708	395,708	526,416
Total liabilities	637,854	526,215	1,164,069
Net Assets			
Investment in capital assets - Net of related debt	1,859,854	1,051,544	2,911,398
Restricted - Debt Service	181,720	57,674	239,394
Unrestricted	(153,802)	480,963	327,161
Total net assets	<u>\$ 1,887,772</u>	<u>\$ 1,590,181</u>	<u>\$ 3,477,953</u>

Village of Berrien Springs, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2005

	Waste Water	Water Operating	Total Enterprise Funds
Operating Revenue			
Sale of water	\$ -	\$ 433,144	\$ 433,144
Sewage disposal charges	497,772	-	497,772
Hydrant rental	-	15,450	15,450
Interest and penalty charges	4,663	5,618	10,281
Other charges for services	28,805	10,382	39,187
	<u>531,240</u>	<u>464,594</u>	<u>995,834</u>
Total operating revenue	531,240	464,594	995,834
Operating Expenses			
Salaries	101,897	84,189	186,086
Fringe benefits	38,188	28,928	67,116
Utilities	22,106	7,392	29,498
Materials, supplies, and freight	16,277	27,537	43,814
Chlorine	10,611	-	10,611
Contractual services	90,139	16,533	106,672
Insurance	7,780	5,603	13,383
Repairs and maintenance	14,639	10,392	25,031
Depreciation and amortization	67,111	48,754	115,865
Administrative fees	28,385	49,000	77,385
Other	29,480	30,629	60,109
	<u>426,613</u>	<u>308,957</u>	<u>735,570</u>
Total operating expenses	426,613	308,957	735,570
Operating Income	104,627	155,637	260,264
Nonoperating Revenue (Expense)			
Investment income	5,680	8,252	13,932
Interest expense	(10,696)	(23,636)	(34,332)
	<u>(5,016)</u>	<u>(15,384)</u>	<u>(20,400)</u>
Total nonoperating expense	(5,016)	(15,384)	(20,400)
Change in Net Assets	99,611	140,253	239,864
Net Assets - Beginning of year	1,788,161	1,449,928	3,238,089
Net Assets - End of year	<u><u>\$ 1,887,772</u></u>	<u><u>\$ 1,590,181</u></u>	<u><u>\$ 3,477,953</u></u>

Village of Berrien Springs, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Waste Water	Water Operating	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 515,243	\$ 449,341	\$ 964,584
Payments to suppliers	(284,799)	(147,003)	(431,802)
Payments to employees	(140,085)	(113,117)	(253,202)
Internal activity - Payments to other funds	83,066	-	83,066
Net cash provided by operating activities	173,425	189,221	362,646
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(93,923)	(166,668)	(260,591)
Proceeds from issuance of long-term debt	220,000	-	220,000
Principal and interest paid on capital debt	(333,462)	(44,402)	(377,864)
Net cash used in capital and related financing activities	(207,385)	(211,070)	(418,455)
Cash Flows from Investing Activities - Interest received	5,680	8,252	13,932
Net Decrease in Cash and Cash Equivalents	(28,280)	(13,597)	(41,877)
Cash and Cash Equivalents - Beginning of year	210,000	529,850	739,850
Cash and Cash Equivalents - End of year	<u>\$ 181,720</u>	<u>\$ 516,253</u>	<u>\$ 697,973</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ -	\$ 458,579	\$ 458,579
Restricted cash	181,720	57,674	239,394
Total cash and cash equivalents	<u>\$ 181,720</u>	<u>\$ 516,253</u>	<u>\$ 697,973</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 104,627	\$ 155,637	\$ 260,264
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	67,111	48,754	115,865
Changes in assets and liabilities:			
Receivables	(19,022)	(17,950)	(36,972)
Accounts payable	(62,357)	83	(62,274)
Deposits payable	-	2,697	2,697
Due to other funds	83,066	-	83,066
Net cash provided by operating activities	<u>\$ 173,425</u>	<u>\$ 189,221</u>	<u>\$ 362,646</u>

Noncash Activities - During the year, there were no significant noncash operating, capital, financing, or investing activities.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Berrien Springs, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Berrien Springs, Michigan:

Reporting Entity

The Village of Berrien Springs, Michigan is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

Jointly Governed Organizations

The fire department, not a legally separate entity, of the Village is jointly operated with Oronoko Township (the "Township"). All fire expenditures are shared between the two units. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets.

The Village, along with Oronoko Township, is a member of the Berrien Springs - Oronoko Township Police Department. Upon dissolution of the police department, the net assets will be shared on a pro rata basis as follows: 50 percent to the Village of Berrien Springs and 50 percent to Oronoko Charter Township. The police department is governed by an administrative board of five members consisting of three members from the Township and two members from the Village. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets. The Village's equity interest in the police department at December 31, 2004 (the police department's year end) is \$498,441 and is included on the government-wide statement of net assets as investment in joint venture. Complete financial statements for the police department can be obtained from the police department administrative offices at 4583 Snow Road, Berrien Springs, MI 49103.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

Waste Water Fund - The Waste Water Fund accounts for the activities of the sewage collection system.

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water/waste water function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2004 taxable valuation of the Village totaled approximately \$38,000,000, on which taxes levied consisted of 10.5391 mills for operating purposes and 3.4539 mills for street repair and maintenance. This resulted in approximately \$400,000 for operating and \$130,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Fund, and Enterprise Funds are generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the Village's water and sewer lines.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$3,917 of interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	7 to 25 years
Water and sewer distribution systems	6 to 40 years
Buildings and building improvements	10 to 40 years
Vehicles	5 to 15 years
Office furnishings, machinery, and equipment	5 to 10 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2004	\$ (42,337)
Current year building permit revenue	6,740
Related expenses - Direct costs	<u>(12,180)</u>
Shortfall at June 30, 2005	<u>\$ (47,777)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated two financial institutions for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in instruments allowed by Public Act 20. The Village's deposits and investment policies are in accordance with statutory authority.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 3 - Deposits and Investments (Continued)

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$1,924,459 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Investment Maturity (in years)	
		1 - 5	6 - 10
Federal Home Loan Bank	\$ 848,538	\$ 423,538	\$ 425,000

Concentration of Credit Risk - The Village places no limit on the amount the Village may invest in any one issuer. More than 5 percent of the Village's investments are in Federal Home Loan Bank Bonds; these investments are 100 percent of the Village's total investments.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

Governmental Activities	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Transfers</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:					
Land	\$ 288,641	\$ -	\$ -	\$ -	\$ 288,641
Construction in progress	<u>59,041</u>	<u>-</u>	<u>-</u>	<u>(59,041)</u>	<u>-</u>
Subtotal	347,682	-	-	(59,041)	288,641
Capital assets being depreciated:					
Roads and sidewalks	96,747	350,352	-	59,041	506,140
Buildings and improvements	677,793	-	-	-	677,793
Vehicles	320,810	21,049	7,544	-	334,315
Office furnishings and equipment	<u>658,659</u>	<u>30,518</u>	<u>30,910</u>	<u>-</u>	<u>658,267</u>
Subtotal	1,754,009	401,919	38,454	59,041	2,176,515
Accumulated depreciation:					
Roads and sidewalks	68,688	14,719	-	-	83,407
Buildings and improvements	248,122	17,936	-	-	266,058
Vehicles	136,085	25,413	4,526	-	156,972
Office furnishings and equipment	<u>310,701</u>	<u>70,469</u>	<u>29,163</u>	<u>-</u>	<u>352,007</u>
Subtotal	<u>763,596</u>	<u>128,537</u>	<u>33,689</u>	<u>-</u>	<u>858,444</u>
Net capital assets being depreciated	<u>990,413</u>	<u>273,382</u>	<u>4,765</u>	<u>59,041</u>	<u>1,318,071</u>
Net capital assets	<u>\$ 1,338,095</u>	<u>\$ 273,382</u>	<u>\$ 4,765</u>	<u>\$ -</u>	<u>\$ 1,606,712</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2004	Additions	Transfers	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 299,830	\$ -	\$ -	\$ 299,830
Construction in progress	855,668	3,918	(67,463)	792,123
Subtotal	1,155,498	3,918	(67,463)	1,091,953
Capital assets being depreciated:				
Water and sewer distribution systems	4,055,818	230,189	67,463	4,353,470
Buildings and building improvements	93,654	-	-	93,654
Vehicles	99,994	-	-	99,994
Machinery and equipment	212,312	26,484	-	238,796
Subtotal	4,461,778	256,673	67,463	4,785,914
Accumulated depreciation:				
Water and sewer distribution systems	1,793,646	97,339	-	1,890,985
Buildings and building improvements	50,490	3,598	-	54,088
Vehicles	99,994	-	-	99,994
Machinery and equipment	129,399	14,053	-	143,452
Subtotal	2,073,529	114,990	-	2,188,519
Net capital assets being depreciated	2,388,249	141,683	67,463	2,597,395
Net capital assets	<u>\$ 3,543,747</u>	<u>\$ 145,601</u>	<u>\$ -</u>	<u>\$ 3,689,348</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 26,295
Public safety	31,120
Public works	34,012
Recreation and culture	<u>37,110</u>

Total governmental activities	<u><u>\$ 128,537</u></u>
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Business-type activities:

Water	\$ 47,879
Sewer	<u>67,111</u>

Total business-type activities	<u><u>\$ 114,990</u></u>
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Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Waste Water Fund	\$ 260,556
This balance results from the Waste Water Fund overdrawing its share of cash from the Village's pooled cash arrangement.		

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund	\$ 52,200
General Fund	Local Streets Fund	<u>78,300</u>
Total		<u><u>\$ 130,500</u></u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund to the Major and Local Street Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

Note 6 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds - Water and sewer general obligation bonds:						
Amount of issue - \$330,614	4.70% -					
Maturing through - 2020	5.65%	\$ 284,482	\$ -	\$ 11,532	\$ 272,950	\$ 11,534
County Contractual Obligations -						
Rose Hill Lift Station note agreement:						
Amount of issue - \$107,000						
Maturing through - 2006	2.95%	107,000	-	107,000	-	-
Ferry Street Sewer note agreement:						
Amount of issue - \$220,000						
Maturing through - 2006	2.79%	210,000	220,000	210,000	220,000	220,000
Revenue bonds - Water revenue bonds:						
Amount of issue - \$415,000	4.70% -					
Maturing through - 2016	5.50%	300,000	-	15,000	285,000	20,000
Total business-type activities		<u>\$ 901,482</u>	<u>\$ 220,000</u>	<u>\$ 343,532</u>	<u>\$ 777,950</u>	<u>\$ 251,534</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2005

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2006	\$ 251,534	\$ 36,046	\$ 287,580
2007	31,532	28,356	59,888
2008	35,378	26,772	62,150
2009	40,378	24,960	65,338
2010	40,378	22,859	63,237
2011-2015	228,422	80,366	308,788
2016-2020	150,328	22,117	172,445
Total	<u>\$ 777,950</u>	<u>\$ 241,476</u>	<u>\$ 1,019,426</u>

Note 7 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Pension Plan

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 8 - Pension Plan (Continued)

The obligation to contribute to and maintain the system for Police and Fire employees was established by negotiation with the Village's competitive bargaining unit and requires a contribution from the employees of .6 percent of gross wages. The obligation for general employees was adopted by the Village's council and requires a contribution of zero percent of gross wages.

For the year ended June 30, 2005, the Village's annual pension cost of \$21,182 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension costs (APC)	\$ -	\$ -	\$ 21,182
Percentage of APC contributed	-	-	100
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 1,948,155	\$ 2,042,915	\$ 2,148,760
Actuarial Accrued Liability (AAL) (entry age)	\$ 1,823,186	\$ 1,845,133	\$ 1,907,674
Overfunded AAL (UAAL)	\$ 124,969	\$ 197,782	\$ 241,086
Funded ratio	106.9%	110.7%	112.6%
Covered payroll	\$ 700,140	\$ 677,448	\$ 716,458
UAAL as a percentage of covered payroll	(17.85%)	(29.20%)	(33.65%)

Village of Berrien Springs, Michigan

Notes to Financial Statements
June 30, 2005

Note 9 - Joint Venture Change in Accounting Principle

The Village, along with Oronoko Township, is a member of the Berrien Springs - Oronoko Township Police Department, which has a year end of December 31, 2004. As of January 1, 2004, the Joint Police Department adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The implementation of this accounting change has required the following adjustment to the governmental activities beginning net assets on the Village's government-wide financial statements:

	<u>Governmental Activities</u>
Net assets - July 1, 2004, as previously reported	\$ 3,866,799
Adjustment to investment in joint venture	<u>333,561</u>
Net assets - July 1, 2004, as adjusted	<u>\$ 4,200,360</u>

Note 10 - Subsequent Events

Subsequent to year end, the Village signed a contract for engineering services in the amount of approximately \$126,000 for the Downtown Revitalization Project, which is scheduled to begin during fiscal 2006. In addition, the Village received notification that a Transportation Enhancement Grant in the amount of \$343,680 was approved related to this project.

The Village also received notification that a Federal Rural Development Loan in the amount of \$5,738,000 and a Federal Rural Development Grant in the amount of \$3 million have been approved for the Waste Water Treatment Plant Project, which is also scheduled to begin during fiscal 2006.

Required Supplemental Information

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 373,000	\$ 373,000	\$ 407,492	\$ 34,492
State sources	185,000	185,000	182,397	(2,603)
Licenses and permits	2,125	2,125	7,015	4,890
Charges for services	268,050	268,050	260,891	(7,159)
Fines and forfeitures	1,000	1,000	1,107	107
Interest and rentals	12,709	12,709	44,898	32,189
Other	88,640	88,640	77,466	(11,174)
Total revenue	930,524	930,524	981,266	50,742
Expenditures				
General government:				
Village council	79,750	70,889	74,512	(3,623)
Village president	8,300	7,660	6,559	1,101
Village clerk	50,248	47,577	44,374	3,203
Elections	1,425	350	100	250
Village treasurer	8,680	8,703	8,756	(53)
Administration	85,879	81,126	58,531	22,595
Village hall and grounds	36,960	33,537	20,540	12,997
Public safety	31,995	11,966	12,180	(214)
Public works	26,909	27,900	-	27,900
Recreation and culture:				
Shamrock park	128,100	133,390	120,287	13,103
Grove, wolf's prairie, and memorial parks	6,550	5,755	4,084	1,671
Other:				
Community services	331,155	321,561	227,289	94,272
Capital improvements	15,000	13,000	12,480	520
Transfers to other funds	115,425	115,425	112,500	2,925
Total expenditures	926,376	878,839	702,192	176,647
Excess of Revenue Over Expenditures	4,148	51,685	279,074	227,389
Fund Balance - Beginning of year	1,611,350	1,611,350	1,611,350	-
Fund Balance - End of year	<u>\$ 1,615,498</u>	<u>\$ 1,663,035</u>	<u>\$ 1,890,424</u>	<u>\$ 227,389</u>

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State sources	\$ 86,830	\$ 86,830	\$ 91,744	\$ 4,914
Interest income	-	-	3,909	3,909
Other	-	-	30	30
Transfer from other funds	52,200	52,200	52,200	-
Total revenue	139,030	139,030	147,883	8,853
Expenditures				
Routine street maintenance	95,180	84,318	57,992	26,326
Tree/Shrub maintenance	22,767	3,885	4,060	(175)
Traffic services	2,300	2,482	2,706	(224)
Winter maintenance	9,277	7,897	9,307	(1,410)
Administration	4,025	3,717	3,766	(49)
Drainage	-	1,679	1,778	(99)
Total expenditures	133,549	103,978	79,609	24,369
Excess of Revenue Over Expenditures	5,481	35,052	68,274	33,222
Fund Balance - Beginning of year	350,344	350,344	350,344	-
Fund Balance - End of year	<u>\$ 355,825</u>	<u>\$ 385,396</u>	<u>\$ 418,618</u>	<u>\$ 33,222</u>

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Continued) Local Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 128,500	\$ 128,500	\$ 133,353	\$ 4,853
State sources	40,800	40,800	358,350	317,550
Interest income	-	-	4,970	4,970
Other	-	-	45	45
Transfer from other funds	78,300	78,300	78,300	-
Total revenue	247,600	247,600	575,018	327,418
Expenditures				
Routine street maintenance	186,181	160,115	533,884	(373,769)
Tree/Shrub maintenance	3,885	4,013	4,265	(252)
Traffic services	2,115	2,396	2,640	(244)
Winter maintenance	7,075	7,363	9,489	(2,126)
Administration	6,070	5,935	5,935	-
Drainage	1,090	2,263	2,399	(136)
Total expenditures	206,416	182,085	558,612	(376,527)
Excess of Revenue Over Expenditures	41,184	65,515	16,406	(49,109)
Fund Balance - Beginning of year	410,397	410,397	410,397	-
Fund Balance - End of year	<u>\$ 451,581</u>	<u>\$ 475,912</u>	<u>\$ 426,803</u>	<u>\$ (49,109)</u>

Village of Berrien Springs, Michigan

Note to Required Supplemental Information June 30, 2005

Note - Budgetary Information

Annual budgets are prepared by the Finance Committee on a basis consistent with generally accepted accounting principles, except that the Village budgets operating transfers as revenues/expenditures instead of "other financing sources/uses." Budgets are adopted for the General Fund and all Special Revenue Funds by the Village Council. Subsequent amendments are approved by the Village Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Village had the following significant expenditure budget variance for the year ended June 30, 2005:

	<u>Budget</u>	<u>Actual</u>
Local Street Fund - Routine street maintenance	<u>\$ 160,115</u>	<u>\$ 533,884</u>

The variance in local streets routine street maintenance relates to approximately \$320,000 of State-funded expenditures for the West Ferry Street project that were not budgeted by the Village as expenditures. The Village recorded the expenditures and related revenues related to these State funds in accordance with the modified accrual method of accounting. As a result, the unfavorable expenditure budget overrun was offset by favorable budget variances in state grants and transfers from other funds.



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To the Village Council
Village of Berrien Springs
Berrien Springs, Michigan 49103

We recently completed the audit of the financial statements of the Village of Berrien Springs for the year ended June 30, 2005. In connection with our audit, we offer the following comments and recommendations.

FINANCIAL OVERVIEW

During the year ended June 30, 2005, the Village's overall financial condition continued to improve with each fund experiencing a net increase for the year. Approximate Fund balances/Retained Earnings as of June 30, 2005 are as follows: General Fund - \$1,890,000, Major Streets - \$419,000, Local Streets - \$427,000, Water Fund - \$1,590,000, and Waste Water Fund - \$1,888,000. In the General Fund, Major Street Fund, and Local Street Fund excess revenue over expenditures was by \$279,000, \$68,000 and \$16,000, respectively. We compliment the Council on their sound budgeting practices and planning processes. By maintaining a strong General Fund fund balance, the Village is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

BANK RECONCILIATION DISCREPENCY

During our testing of the June 30, 2005 bank reconciliation, we noted that the "book balance" per the computer generated bank reconciliation did not agree to the total general ledger balances of the several accounts that are included in the reconciliation. Plante and Moran was able to locate, within reason, the cause of the discrepancy for that month during the audit and made the appropriate adjustments to cash. We highly recommend that the Village change the monthly bank reconciliation preparation process to include a comparison of the "book balance" per the bank reconciliation to the general ledger. In addition, the individual reviewing the monthly bank reconciliations should also verify this comparison, as well as agree the bank balance to the bank statement. These additional procedures will strengthen the integrity of the bank reconciliation preparation and review process, and assist with timely identification of mis-postings within the general ledger.

ALLOCATION OF INTEREST

We noted during our testing of interest income that interest earned on the pooled cash account is being allocated on the basis of year-to-date fund income, rather than monthly cash balance. This resulted in the Waste Water Fund accumulating approximately \$5,700 of interest income during the year, although the fund has carried a negative cash balance for the majority of the year. Due to the fact that the financial institution calculates interest income on the basis of cash on deposit, we recommend that the Village change its method of allocation. The most common method of allocation is based on the fund's average monthly cash balance. This method more accurately reflects the income that belongs to the fund based on the amount of cash the fund contributed into the pool for the month.

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WASTE WATER FUND CASH DEFICIT

For the sixth year in a row, the Waste Water Fund has ended the year with a negative operating cash balance. The fund was able to increase fund balance this year by approximately \$100,000. The Village re-evaluated user charges during fiscal 2004 and increased rates significantly to more adequately cover operating costs. However, the fund continues to show a negative cash balance at the end of the year. If this negative cash balance cannot be recovered in the near future, the Waste Water Fund should execute a formal note with the General Fund and begin to pay interest on this "borrowed" money.

STATE SHARED REVENUE

State shared revenue accounts for approximately 19% Village's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. In February 2005, the Governor issued an Executive Order, proposing no further cuts to revenue sharing. In addition, the Governor has also presented her fiscal year 2005/2006 budget, which includes a total "shortfall" of \$773 million. The 2005/2006 budgeted constitutional and statutory revenue sharing is approximately \$1.1 billion, which is basically the fiscal year 2004/2005 level. However, the revenue sharing act will require an amendment to accomplish distribution in this manner.

While governmental units might be tempted to budget for fiscal year 2005/2006 based on fiscal year 2004/2005 funding levels, there's still much to take place in the legislative process before this budget becomes law. In addition, there is continued uncertainty related to Michigan's economy despite the positive economic results experienced by other large states.

The table below details state shared revenue for the Village over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the Village compared to the State's fiscal year 2000.

State Fiscal Year	Statutory	Constitutional	Total	Increase (Decrease) from 2000
2000	\$ 82,860	\$ 130,627	\$ 213,487	\$ -
2001	95,080	120,828	215,908	2,421
2002	88,215	122,060	210,275	(3,212)
2003	81,675	124,127	205,802	(7,685)
2004	62,188	122,777	184,965	(28,522)
2005	57,273	125,461	182,734	(30,753)

STATE SHARED REVENUE (Continued)

Lastly, while it's good news that revenue sharing may be maintained at current levels, revenue sharing for fiscal year 2004/2005 and fiscal year 2005/2006 is more than \$500 million less annually than amounts provided for in law and based on actual sales tax collections. Based on the State's current budget situation, a return to past funding levels is not likely in the foreseeable future. We will continue to update the Village as developments occur.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and Village staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience. This report is intended solely for the information and use of the Village Council.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style. To the right of the signature, there is a vertical red line.

August 17, 2005